

EU summit: Two dirty shirts but deadlock on EU budget remains

The EU budget negotiations have not resulted in a breakthrough, illustrating how difficult it is to bring all individual interests on one common denominator



From left, ECB President Christine Lagarde, European Commission President Ursula von der Leyen, European Council President Charles Michel, and European Parliament President Sassoli

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Before the negotiations on the EU's long-term budget started, European Council president Charles Michel had advised European leaders to bring a few extra shirts for this summit as he expected this to be a marathon meeting. They've just needed two as the summit was just ended on the second day without any results. European government leaders can do their weekend laundry at home.

The next seven-year-budget for the EU – the officially called “multiannual financial framework” – is key for the EU's ambitions of a new green deal, achieving digital leadership at a global level, the recent initiative on artificial intelligence and defense cooperation. However, without the UK as the largest net contributor to the budget, discussions mainly revolve around who will foot the bill. As this week's negotiations have shown, divides are large between groups of countries that want to keep the budget as small as possible, countries that want to maintain larger traditional parts of the budget like agricultural and cohesion funds and countries that focus on modernizing the budget.

From an economic and financial markets perspective, the longer-term budget as well as the negotiations on these plans give important indications of how likely a large fiscal push will be in the coming years. While plans for the size of the budget diverge only marginally percentage wise, this has proven too much to overcome. Seriously discussed were plans ranging between 1.11% - the initial European Commission proposal - and 1% as proposed by the “frugal four”, which are the Netherlands, Sweden, Denmark and Austria that are also fighting hard to maintain their rebates that were initially introduced for the UK. The European Council proposal was somewhere in between at 1.07%, which indicates that margins for an expansionary fiscal stance are negligible. According to comments after the summit, all of these proposals did not find sufficient support and no new proposal had been tabled.

To put the EU budget and a possible fiscal push into perspective: total expenditures of the European Commission amounted to 157 billion euro in 2018, which is roughly ten times smaller than government expenditure in France or Germany. Of course the devil is in the details when it comes to spending and there are many shuffles possible that make this budget more or less attractive for member states.

A potentially large fiscal push is the EU's one-trillion-euro green deal. Only half of the amount is to come from the coming budget. The rest of the money will in part come through investment schemes, in part through the EIB and 100 billion euro through matching of national governments.

The negotiations on the EU budget also illustrate the intended shift of economic priorities in the EU and the difficulties to square these shifts with country-specific interests. The intended shift would prefer more funding for the green deal, defense and high-tech, while the more traditional parts of the budget like the agricultural funds and the regional and cohesion funds are under pressure. Under the European Council president's proposal going into the summit, Common Agricultural Policy spending will decrease from 382.9 billion euro in the previous budget to 329.3 billion euro, a decline of 14% while cohesion spending will decline from 367.6 billion euro to 323.2 billion euro – a 12% decline. While this still amounts to about 30% of the total budget for both, this leads to strong opposition from mainly southern and CEE countries, causing funding for the main spearpoints of the Von der Leyen Commission at risk.

Time is now running out for a budget to be decided on as it has to be approved and legislated by the end of the year. In case it does not, the European Parliament has adopted a resolution that requests to make arrangements for a rollover of the current MFF for 2021 but this would throw a spanner in the works for many Commission plans and could freeze several EU funds.

Today's decision to postpone also shows the difficulty that EU leaders have to come to a decision on fiscal expansion. Just like we already saw with the rather vague Eurogroup announcement on Eurozone fiscal expansion earlier this week, there remains caution regarding a fiscal push despite a weak structural economy and cyclical hiccups. Expecting a big fiscal push from the EU is therefore likely going to result in disappointment. While in the past an often-heard comment after EU summits was “extend and pretend”, today's summit did not even try to pretend that all countries are on the same page.

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